

The True Costs of Church Loans: Options for Comparison

Just like an individual, when a church needs a large amount of money for building or remodeling, they often need a loan. A loan allows them to repay the total amount borrowed over a number of years at a payment their budget can afford.

There are several options for a church to consider. We will compare three here. Do not confuse loans for churches with home mortgages. The funding sources, the costs, legal requirements and payment schedules are very different.

BANK LOANS

Most commercial church loans allow repayment over 15-20 years. Interest rates can be variable, moving up or down with other interest rates, but most churches prefer fixed rates. Banks usually are willing to “fix” the rate for 3-5 years and then reset the rate depending on prevailing market conditions.

The cost of borrowing is more than just the interest rate. With a commercial loan, you may incur points, an origination fee, appraisal fee, document preparation fees, compensating balances and title insurance costs.

BOND ISSUES

Often used by congregational style churches to finance long term debt, church bonds usually offer a fixed rate over a longer term than a traditional loan. However, the main attraction of a longer period to repay a loan has led many churches into assuming more debt than is healthy.

Church bonds tend to be much more expensive than other loans. Look for costs described as: underwriting discount, fiscal advisory fee, trustee fee, security registration fee, contingency fee, acceptance/registration fee, and printing costs. If a reserve fund is required, it will increase the amount the church must borrow.

What type of commitment are they giving? A “best efforts” commitment means they promise only the amount of money raised from the sale of bonds, which may be less than your church needs. A “firm” commitment promises a specific amount of money.

The members of the church will be solicited by the company to buy bonds now and possibly in the future. Members also may confuse buying a bond with “stewardship,” when a bond is a loan, not a gift.



UNITED METHODIST FOUNDATION OF LOUISIANA LOAN

We are your foundation. As part of the United Methodist connection, we are in the same family.

Our loans are structured like a bank loan. We offer a fixed rate for a period of five years on a 15-20 year amortization schedule. Most churches try to repay their loans early, which results in small balances at the end of five years.

We do not charge points, origination fees, document preparation fees, underwriting

discounts, fiscal advisory fees, trustee fees, security registration fees, contingency fees, acceptance/registration fees, or printing costs. We do not require an appraisal, which can add more to the cost. We charge no fees when the rate is reset, unlike banks or bond houses.

Our interest rates are usually comparable to those at your local, friendly bank — if not lower.

Typical costs for a \$1 million loan

	Church Bond Issue	Commercial Bank Loan	Foundation Loan
Underwriting Discount	40,000	10,000	0
Fiscal Advisory Fee	30,000	0	0
Trustee Fee	30,000	0	0
Legal Fees			
Recording Fee	2,000	2,000	300
Filing Fee			
Title Insurance Fee	5,000	5,000	0
Appraisal Fee	2,000	2,000	0
Printing Costs	250	250	0
Totals	\$109,250	\$19,250	\$300

When compared to the competition, your **Foundation is the winner every time.**



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